

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>		Printed Name		License Number

CITY OF CROSWELL

Sanilac County, Michigan

FINANCIAL STATEMENTS

June 30, 2006

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
Basic Financial Statements:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Assets	3
Statement of Activities	4
<i>Fund Financial Statements:</i>	
<i>Governmental Funds:</i>	
Balance Sheet.....	5
Reconciliation of Fund Balances of Governmental Funds to Net Assets of	
Governmental Activities	6
Statement of Revenues, Expenditures, and Changes in Fund Balances	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	8
<i>Proprietary Funds:</i>	
Statement of Net Assets.....	9
Statement of Revenues, Expenses, and Changes in Net Assets.....	10
Statement of Cash Flows.....	12
<i>Fiduciary Fund:</i>	
Statement of Net Assets.....	14
Notes to Financial Statements	16
Required Supplemental Information:	
Schedule of Pension Plan Funding Progress.....	33
Budgetary Comparison Schedule – General Fund	34
Other Supplemental Information:	
<i>General Fund:</i>	
Detailed Schedule of Revenues.....	36
Detailed Schedule of Expenditures	37
<i>Nonmajor Governmental Funds:</i>	
Combining Balance Sheet.....	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	44
<i>Fiduciary Fund:</i>	
Combining Statement of Changes in Assets and Liabilities.....	45
Schedule of Debt Service Requirements	46
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49

**BERTHIAUME
& COMPANY**

Certified Public Accountants



60 Harrow Lane
Saginaw, Michigan 48638

(989) 791-1555
Fax (989) 791-1992

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Croswell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Croswell, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Croswell, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Croswell, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2006, on our consideration of the City of Croswell's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison and pension plan funding schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Croswell's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Berthiaume & Co.

October 5, 2006

BASIC FINANCIAL STATEMENTS

CITY OF CROSWELL

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets:				
Cash and cash equivalents	\$ 973,438	\$ 2,476,430	\$ 3,449,868	\$ 674,100
Investments	425,264	-	425,264	-
Taxes receivable	3,805	-	3,805	1,960
Accounts receivable	15,765	456,615	472,380	-
Special assessments receivable	-	9,338	9,338	-
Due from other governmental units	185,069	45,120	230,189	-
Internal balances	(2,790)	2,790	-	-
Inventory	-	288,358	288,358	-
Prepaid expenses	45,192	37,215	82,407	-
Restricted cash and cash equivalents	-	95,985	95,985	-
Capital assets:				
Nondepreciable capital assets	140,539	165,055	305,594	-
Depreciable capital assets, net	3,182,310	7,040,882	10,223,192	894,047
Total assets	4,968,592	10,617,788	15,586,380	1,570,107
Liabilities:				
Accounts payable	30,274	156,197	186,471	3,355
Accrued expenses	27,325	27,826	55,151	52
Due to other governmental units	1,827	-	1,827	160,906
Deposits payable	3,000	30,880	33,880	-
Deferred revenue	-	15,535	15,535	-
Long-term liabilities:				
Due within one year	2,929	31,114	34,043	64,847
Due in more than one year	153,256	1,186,157	1,339,413	135,388
Total liabilities	218,611	1,447,709	1,666,320	364,548
Net assets:				
Invested in capital assets, net of related debt	3,322,849	6,140,823	9,463,672	683,812
Restricted for:				
Debt service	-	95,985	95,985	-
Streets	563,926	-	563,926	-
Nonexpendable trust principal	664,118	-	664,118	-
Unrestricted	199,088	2,933,271	3,132,359	521,747
Total net assets	\$ 4,749,981	\$ 9,170,079	\$ 13,920,060	\$ 1,205,559

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions/Programs					
PRIMARY GOVERNMENT:					
Governmental activities:					
General government	\$ 481,712	\$ 65,790	\$ 12,240	\$ 4,800	\$ (398,882)
Public safety	629,488	21,974	59,728	23,500	(524,286)
Public works	646,618	75,794	270,689	5,000	(295,135)
Health and welfare	15,834	-	-	-	(15,834)
Recreation and culture	230,244	4,777	58,999	-	(166,468)
Interest on long-term debt	916	-	-	-	(916)
Total governmental activities	2,004,812	168,335	401,656	33,300	(1,401,521)
Business-type activities:					
Electric	2,785,348	3,131,569	-	-	346,221
Sewer	781,200	568,886	-	-	(212,314)
Water	224,165	289,136	-	-	64,971
Ambulance	500,499	431,994	-	-	(68,505)
Total business-type activities	4,291,212	4,421,585	-	-	130,373
Total primary government	\$ 6,296,024	\$ 4,589,920	\$ 401,656	\$ 33,300	\$ (1,271,148)
COMPONENT UNITS:					
Downtown development authority	\$ 34,151	\$ -	\$ -	\$ -	\$ (34,151)
Tax increment finance authority	40,689	24,600	-	-	(16,089)
Economic development corporation	7,055	900	-	-	(6,155)
Total component units	\$ 81,895	\$ 25,500	\$ -	\$ -	\$ (56,395)

The accompanying notes are an integral part of these financial statements.

	Primary Government			
	Governmental	Business-		Component
	Activities	type	Total	Units
	Activities	Activities	Total	Units
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (1,401,521)	\$ 130,373	\$ (1,271,148)	\$ (56,395)
<i>General revenues:</i>				
Taxes:				
Property taxes, levied for general purpose	486,622	-	486,622	-
Property taxes, levied for debt service	57,469	-	57,469	-
Property taxes, levied for local streets	-	57,469	57,469	-
Payment in lieu of property taxes	90,198	-	90,198	-
Property taxes captured	-	-	-	220,253
Franchise taxes	5,633	-	5,633	-
Grants and contributions not restricted to specific programs	305,876	-	305,876	-
Unrestricted investment earnings	35,062	103,676	138,738	6,680
Contributions to principal of permanent funds	-	-	-	-
Special item - Gain on sale of capital assets	(4,305)	-	(4,305)	-
Transfers	531,371	(531,371)	-	-
Total general revenues, contributions, special items and transfers	1,507,926	(370,226)	1,137,700	226,933
Change in net assets	106,405	(239,853)	(133,448)	170,538
Net assets, beginning of year	4,643,576	9,409,932	14,053,508	1,035,021
Net assets, end of year	\$ 4,749,981	\$ 9,170,079	\$ 13,920,060	\$ 1,205,559

CITY OF CROSWELL

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 84,859	\$ 835,734	\$ 920,593
Investments	-	425,264	425,264
Taxes receivable	3,805	-	3,805
Accounts receivable	15,765	-	15,765
Due from other governmental units	104,373	59,538	163,911
Due from component unit	20,493	665	21,158
Due from other funds	9,210	120	9,330
Prepaid expenditures	35,609	7,671	43,280
Total assets	<u>\$ 274,114</u>	<u>\$ 1,328,992</u>	<u>\$ 1,603,106</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 25,661	\$ 1,523	\$ 27,184
Accrued expenses	23,869	3,053	26,922
Due to other governmental units	1,827	-	1,827
Due to other funds	120	12,000	12,120
Deposits payable	3,000	-	3,000
Total liabilities	<u>54,477</u>	<u>16,576</u>	<u>71,053</u>
Fund balances:			
Reserved for:			
Prepaid expenditures	35,609	7,671	43,280
Nonexpendable trust principal	-	664,118	664,118
Unreserved:			
Undesignated, reported in:			
General fund	184,028	-	184,028
Special revenue funds	-	640,627	640,627
Total fund balances	<u>219,637</u>	<u>1,312,416</u>	<u>1,532,053</u>
Total liabilities and fund balances	<u>\$ 274,114</u>	<u>\$ 1,328,992</u>	<u>\$ 1,603,106</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2006

Total fund balances for governmental funds \$ 1,532,053

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	3,597,474	
Less accumulated depreciation	<u>(1,152,674)</u>	2,444,800

Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

Compensated absences payable	<u>(156,185)</u>	(156,185)
------------------------------	------------------	-----------

The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets.

929,313

Net assets of governmental activities

\$ 4,749,981

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	\$ 596,380	\$ 57,469	\$ 653,849
Licenses and permits	10,688	-	10,688
Federal grants	10,800	-	10,800
State grants	322,709	201,139	523,848
Contributions from other units	56,665	123,105	179,770
Charges from services	106,174	2,462	108,636
Fines and forfeits	5,724	2,019	7,743
Interest and rents	5,640	32,430	38,070
Other revenue	37,512	14,010	51,522
Total revenues	<u>1,152,292</u>	<u>432,634</u>	<u>1,584,926</u>
Expenditures:			
Current:			
General government	487,264	-	487,264
Public safety	560,343	-	560,343
Public works	352,329	170,738	523,067
Health and welfare	15,534	-	15,534
Recreation and culture	24,123	177,222	201,345
Capital outlay	209,080	-	209,080
Debt service:			-
Principal	20,000	-	20,000
Interest and charges	916	-	916
Total expenditures	<u>1,669,589</u>	<u>347,960</u>	<u>2,017,549</u>
Excess (deficiency) of revenues over expenditures	<u>(517,297)</u>	<u>84,674</u>	<u>(432,623)</u>
Other financing sources (uses):			
Transfers in	551,371	83,318	634,689
Transfers out	<u>(83,318)</u>	<u>(20,000)</u>	<u>(103,318)</u>
Total other financing sources (uses)	<u>468,053</u>	<u>63,318</u>	<u>531,371</u>
Net change in fund balances	(49,244)	147,992	98,748
Fund balances, beginning of year, as restated	<u>268,881</u>	<u>1,164,424</u>	<u>1,433,305</u>
Fund balances, end of year	<u>\$ 219,637</u>	<u>\$ 1,312,416</u>	<u>\$ 1,532,053</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2006

Net change in fund balances - total governmental funds \$ 98,748

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	209,080	
Less depreciation expense	<u>(118,102)</u>	90,978

Governmental funds report sale of capital assets as revenue. However, in the statement of activities, the cost of those assets is deducted against the proceeds. (6,765)

Repayments of principal on notes and contracts is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets. 20,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	17,183
--	--------

The net revenue (expense) of the internal service fund is reported with governmental activities. (113,739)

Change in net assets of governmental activities \$ 106,405

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

PROPRIETARY FUNDS STATEMENT OF NET ASSETS

June 30, 2006

	Business-type Activities					Governmental Activities
	Major Enterprise Funds		Nonmajor Enterprise Funds			Internal Service Fund
	Electric Fund	Sewer Fund	Water Fund	Ambulance Fund	Total	Equipment Fund
Assets:						
Current assets:						
Cash and cash equivalents	\$ 2,175,870	\$ 26,855	\$ 237,178	\$ 36,527	\$ 2,476,430	\$ 52,845
Accounts receivable	276,628	77,397	30,690	71,900	456,615	-
Due from other governmental units	-	-	-	44,455	44,455	-
Due from component unit	-	665	-	-	665	-
Due from other funds	12,000	-	-	-	12,000	-
Inventory	288,358	-	-	-	288,358	-
Prepaid expenses	10,463	9,781	3,113	13,858	37,215	1,912
Total current assets	2,763,319	114,698	270,981	166,740	3,315,738	54,757
Noncurrent assets:						
Restricted cash and cash equivalents	-	95,985	-	-	95,985	-
Special assessments receivable	-	4,665	4,673	-	9,338	-
Capital assets:					-	
Nondepreciable capital assets	-	143,597	21,458	-	165,055	-
Depreciable capital assets, net	1,294,682	4,934,762	705,129	106,309	7,040,882	878,049
Advances receivable from other funds	596,298	-	-	-	596,298	-
Total noncurrent assets	1,890,980	5,179,009	731,260	106,309	7,907,558	878,049
Total assets	4,654,299	5,293,707	1,002,241	273,049	11,223,296	932,806
Liabilities						
Current liabilities:						
Accounts payable	150,538	2,061	2,824	774	156,197	3,090
Accrued expenses	11,043	13,132	663	2,988	27,826	403
Due to other funds	-	5,725	-	3,485	9,210	-
Deposits payable	30,880	-	-	-	30,880	-
Deferred revenue	-	-	-	15,535	15,535	-
Current portion of long-term debt	15,114	16,000	-	-	31,114	-
Total current liabilities	207,575	36,918	3,487	22,782	270,762	3,493
Noncurrent liabilities:						
Advances payable to other fund	-	566,298	-	30,000	596,298	-
Compensated absences payable	99,225	23,651	-	29,281	152,157	-
Long-term debt	-	1,034,000	-	-	1,034,000	-
Total noncurrent liabilities	99,225	1,623,949	-	59,281	1,782,455	-
Total liabilities	306,800	1,660,867	3,487	82,063	2,053,217	3,493
Net assets:						
Invested in capital assets, net of related debt	1,279,568	4,028,359	726,587	106,309	6,140,823	878,049
Restricted for:					-	
Debt service	-	95,985	-	-	95,985	-
Unrestricted	3,067,931	(491,504)	272,167	84,677	2,933,271	51,264
Total net assets	\$ 4,347,499	\$ 3,632,840	\$ 998,754	\$ 190,986	\$ 9,170,079	\$ 929,313

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2006

	Business-type Activities					Governmental Activities
	Major Enterprise Funds		Nonmajor Enterprise Funds			Internal Service Fund
	Electric Fund	Sewer Fund	Water Fund	Ambulance Fund	Total	Equipment Fund
Operating revenues:						
Charges for services	\$ 3,070,610	\$ 562,069	\$ 286,032	\$ 431,994	\$ 4,350,705	\$ 20,000
Penalties	6,078	2,524	1,019	-	9,621	-
Penalties	-	-	-	-	-	193,046
Other	54,881	3,660	1,451	-	59,992	11,568
Total operating revenues	3,131,569	568,253	288,502	431,994	4,420,318	224,614
Operating expenses:						
Personnel	338,387	218,588	51,441	296,557	904,973	59,219
Fringe benefits	146,505	128,834	37,286	134,774	447,399	28,415
Supplies	78,201	34,501	23,027	23,211	158,940	76,318
Property tax equivalents	61,300	12,520	4,281	5,630	83,731	-
Contracted services	14,734	12,950	22,699	1,825	52,208	12,170
Purchase of power	1,917,312	-	-	-	1,917,312	-
Telephone	2,707	1,615	549	2,156	7,027	1,127
Mileage	1,132	609	167	44	1,952	-
Dues and membership fees	5,407	2,344	1,200	300	9,251	-
Education and training	2,404	1,185	575	50	4,214	-
Printing and publishing	-	-	686	-	686	521
Insurance	13,786	6,562	3,473	3,626	27,447	16,871
Utilities	10,505	45,717	32,736	4,867	93,825	-
Repair and maintenance	2,851	10,938	1,618	6,175	21,582	28,268
Equipment rental	50,825	48,231	10,208	595	109,859	11,401
Other services and supplies	945	5	5	225	1,180	-
Depreciation	138,347	197,941	34,214	20,464	390,966	105,728
Total operating expenses	2,785,348	722,540	224,165	500,499	4,232,552	340,038
Operating income (loss)	346,221	(154,287)	64,337	(68,505)	187,766	(115,424)
Non-operating revenues (expenses):						
Property taxes	-	57,469	-	-	57,469	-
Interest income	100,694	792	1,924	266	103,676	675
Interest earned on special assessments	-	633	634	-	1,267	-
Sale of fixed assets	-	-	-	-	-	1,010
Interest expense	-	(58,660)	-	-	(58,660)	-
Total non-operating revenues (expenses)	100,694	234	2,558	266	103,752	1,685

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Year Ended June 30, 2006

	Business-type Activities					Governmental Activities
	Major Enterprise Funds		Nonmajor Enterprise Funds			Internal Service Fund
	Electric Fund	Sewer Fund	Water Fund	Ambulance Fund	Total	Equipment Fund
Net income (loss) before operating transfers	446,915	(154,053)	66,895	(68,239)	291,518	(113,739)
Operating transfers:						
Transfer from other funds	-	-	-	50,000	50,000	
Transfer to other funds	(581,371)	-	-	-	(581,371)	-
Total operating transfers	(581,371)	-	-	50,000	(531,371)	-
Net income (loss)	(134,456)	(154,053)	66,895	(18,239)	(239,853)	(113,739)
Net assets, beginning of year	4,481,955	3,786,893	931,859	209,225	9,409,932	1,043,052
Net assets, end of year	<u>\$ 4,347,499</u>	<u>\$ 3,632,840</u>	<u>\$ 998,754</u>	<u>\$ 190,986</u>	<u>\$ 9,170,079</u>	<u>\$ 929,313</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	Business-type Activities					Governmental Activities
	Major Enterprise Funds		Nonmajor Enterprise Funds			Internal Service Fund
	Electric Fund	Sewer Fund	Water Fund	Ambulance Fund	Total	Equipment Fund
Cash flows from operating activities:						
Cash received from customers	\$ 3,119,916	\$ 562,758	\$ 322,014	\$ 457,870	\$ 4,462,558	\$ 31,568
Cash received from interfund services	-	-	-	-	-	193,046
Cash payments to employees	(389,007)	(212,532)	(51,441)	(311,940)	(964,920)	(73,472)
Cash payments to suppliers for goods and services	(2,347,940)	(304,470)	(176,154)	(188,470)	(3,017,034)	(177,946)
Net cash provided (used) by operating activities	382,969	45,756	94,419	(42,540)	480,604	(26,804)
Cash flows from non-capital financing activities:						
Operating transfers in	-	-	-	50,000	50,000	-
Operating transfers out	(581,371)	-	-	-	(581,371)	-
Net cash provided (used) by non-capital financing activities	(581,371)	-	-	50,000	(531,371)	-
Cash flows from capital and related financing activities:						
Sale of fixed assets	-	-	-	-	-	1,010
Acquisition and construction of capital assets	-	-	(76,225)	-	(76,225)	(26,823)
Principal payments	15,114	(16,000)	-	-	(886)	-
Principal collected on special assessments	-	3,853	3,861	-	7,714	-
Interest earned on special assessments	-	633	634	-	1,267	-
Interest paid	-	(58,660)	-	-	(58,660)	-
Property tax collections	-	57,469	-	-	57,469	-
Net cash provided (used) by capital and related financing activities	15,114	(12,705)	(71,730)	-	(69,321)	(25,813)
Cash flows from investing activities:						
Interest received	100,694	792	1,924	266	103,676	675
Net cash provided (used) by investing activities	100,694	792	1,924	266	103,676	675

continued

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2006

	Business-type Activities					Governmental Activities
	Major Enterprise Funds		Nonmajor Enterprise Funds		Total	Internal Service Fund
	Electric Fund	Sewer Fund	Water Fund	Ambulance Fund		Equipment Fund
Net increase (decrease) in cash and cash equivalents	(82,594)	33,843	24,613	7,726	(16,412)	(51,942)
Cash and cash equivalents, beginning of year	<u>2,258,464</u>	<u>88,997</u>	<u>212,565</u>	<u>28,801</u>	<u>2,588,827</u>	<u>104,787</u>
Cash and cash equivalents, end of year	<u>\$ 2,175,870</u>	<u>\$ 122,840</u>	<u>\$ 237,178</u>	<u>\$ 36,527</u>	<u>\$ 2,572,415</u>	<u>\$ 52,845</u>
Reconciliation of operating income (loss) to net cash from operating activities:						
Operating income (loss)	\$ 346,221	\$ (154,287)	\$ 64,337	\$ (68,505)	\$ 187,766	\$ (115,424)
Adjustments:						
Depreciation	138,347	197,941	34,214	20,464	390,966	105,728
Decrease (increase) in current assets:						
Taxes receivable	-	81	-	-	81	-
Accounts receivable	(11,653)	(5,576)	33,512	4,697	20,980	-
Due from other governmental units	-	-	-	5,644	5,644	-
Inventory	(18,995)	-	-	-	(18,995)	-
Prepaid expenses	(430)	(16)	(952)	(1,219)	(2,617)	(312)
Accounts payable	(25,232)	616	(35,938)	(1,688)	(62,242)	(2,458)
Accrued expenses	6,916	941	(754)	(2,085)	5,018	(85)
Deposits payable	(1,585)	-	-	-	(1,585)	-
Deferred revenue	-	-	-	15,535	15,535	-
Compensated absences payable	<u>(50,620)</u>	<u>6,056</u>	<u>-</u>	<u>(15,383)</u>	<u>(59,947)</u>	<u>(14,253)</u>
Net cash provided (used) by operating activities	<u>\$ 382,969</u>	<u>\$ 45,756</u>	<u>\$ 94,419</u>	<u>\$ (42,540)</u>	<u>\$ 480,604</u>	<u>\$ (26,804)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CROSWELL

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Agency Funds</u>
Assets:	
Cash and cash equivalents	\$ 3,372
Total assets	<u>3,372</u>
Liabilities:	
Due to City	1,412
Due to Component Unit	<u>1,960</u>
Total liabilities	<u>3,372</u>
Net Assets:	
Unrestricted	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Croswell, Sanilac County, Michigan, was incorporated in 1847 under provisions of the Home Rule Act of the State of Michigan. The City operates under a council form of government and provides the following services: public safety, highways and streets, sanitation, community service, and general administrative services to approximately 2,500 residents.

The accounting policies of the City of Croswell conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component unit's columns in the combined financial statements include the financial data of the City's three component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Tax Increment Financing Authority - The members of the governing board of the Tax Increment Financing Authority are appointed by the City Council.

Economic Development Corporation - The members of the governing board of the Economic Development Corporation are appointed by the City Council.

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Basis of Presentation – Fund Accounting:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The City reports the following major enterprise funds:

Electric Fund – The Electric Fund is used to account for the revenues and expenses for the operation of an electric system.

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property Taxes – Property taxes attach as an enforceable lien on property as of December 31. The related property taxes are billed on the following July 1, are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2005 ad valorem taxable valuation of the City totaled \$40,918,353 and the industrial facilities taxable valuation of the City totaled \$3,087,600, on which taxes levied consisted of 14.7998 mills for the City’s operating purposes, 1.7500 mills for local streets, and 1.7500 for sewer debt.

The delinquent real property taxes of the City are purchased by Sanilac County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	39-55 years
Vehicles	5-15 years
Machinery and other equipment	5-55 years

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused sick and vacation days. Under the City's policy, employees earn benefits based on time of service with the City. The maximum accumulated payout at termination of unused sick hours is 960 and the maximum accumulated payout at termination of unused vacation hours is 240. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A proposed operating budget by fund is submitted to the City Council. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted by adoption of the City Council.
4. Any revision that alters the total expenditures of any fund must be approved by the City.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were materially in excess of the amounts budgeted.

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2005	\$	-
Current year building permit revenue		5,055
Related expenses:		
Direct costs	12,951	
Estimated indirect costs	<u>-</u>	
Total construction code expenses		<u>12,951</u>
Cumulative surplus at June 30, 2006	\$	<u>-</u>

In accordance with the act, no reservation of fund balance in the General Fund is required to be reserved for future construction code activities.

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City's deposits and investments have been made in accordance with statutory authority.

The City's deposits and investments are subject to several types of risk, which are presented in more detail as follows:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$4,474,508 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$326,072 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Custodial Credit Risk of Investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty in the City's name:

<u>Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government securities	\$ 412,473	Counterparty
Mutual funds	12,791	Counterparty

Interest Rate Risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a maximum 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government securities	\$ 412,473	2.28 years

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

Credit Risk:

As of year end, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bond mutual fund	\$ 12,791	Not Rated	N/A

Concentration of Credit Risk:

The City places limits on the amount the City may invest in any one issuer. At June 30, 2006, there were no investments in any one issuer (other than the U.S. government and mutual funds) that exceeded more than 5 percent of total investments.

NOTE 4: BOND RESERVES AND RESTRICTED ASSETS

The ordinance authorizing issuance of the 1991 Sewer Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Receiving Account - All receipts are initially deposited into this account.

Operation and Maintenance Account - Quarterly transfers are to be made to cover upcoming operating expenses.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due.

Bond Reserve Account - Excess funds of up to \$6,252 per year are to be transferred to this account until \$62,500 is accumulated.

At June 30, 2006, the City had established these accounts and had restricted cash as follows:

	<u>Requirements</u>			<u>Amount Funded</u>
	<u>July 1, 2005</u>	<u>Additions</u>	<u>June 30, 2006</u>	<u>Restricted Cash and Cash Equivalents</u>
Sewer Fund:				
Bond Reserve	\$ 62,500	\$ -	\$ 62,500	\$ 62,500
Bond and Interest Redemption	15,958	(187)	15,771	33,485

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities was as follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2006</u>
Governmental Activities:				
Nondepreciable capital assets				
Land	\$ 140,539	\$ -	\$ -	\$ 140,539
Depreciable capital assets				
Land improvements	86,921	-	-	86,921
Buildings and improvements	2,636,637	162,132	-	2,798,769
Vehicles	1,116,752	18,830	20,296	1,115,286
Machinery and other equipment	1,383,048	54,941	-	1,437,989
Total depreciable capital assets	5,223,358	235,903	20,296	5,438,965
Accumulated depreciation	2,046,355	223,830	13,530	2,256,655
Depreciable assets, net	3,177,003	12,073	6,766	3,182,310
Governmental activities, capital assets, net	3,317,542	12,073	6,766	3,322,849
Business-type Activities				
<i>Ambulance capital assets</i>				
Depreciable capital assets				
Buildings and improvements	73,860	-	-	73,860
Vehicles	125,488	-	-	125,488
Machinery and other equipment	113,405	-	-	113,405
Total depreciable capital assets	312,753	-	-	312,753
Accumulated depreciation	185,980	20,464	-	206,444
Ambulance capital assets, net	126,773	(20,464)	-	106,309
<i>Electric capital assets</i>				
Depreciable capital assets				
Buildings and improvements	528,265	-	-	528,265
Machinery and other equipment	1,515,654	-	-	1,515,654
Distribution system	2,094,481	-	-	2,094,481
Total depreciable capital assets	4,138,400	-	-	4,138,400
Accumulated depreciation	2,705,371	138,347	-	2,843,718
Electric capital assets, net	1,433,029	(138,347)	-	1,294,682

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2006</u>
Business-type Activities, continued				
<i>Sewer capital assets</i>				
Nondepreciable capital assets				
Land	<u>143,597</u>	<u>-</u>	<u>-</u>	<u>143,597</u>
Depreciable capital assets				
Buildings and improvements	<u>2,086,152</u>	<u>-</u>	<u>-</u>	<u>2,086,152</u>
Machinery and other equipment	<u>958,296</u>	<u>-</u>	<u>-</u>	<u>958,296</u>
Distribution system	<u>5,318,870</u>	<u>-</u>	<u>-</u>	<u>5,318,870</u>
Total depreciable capital assets	<u>8,363,318</u>	<u>-</u>	<u>-</u>	<u>8,363,318</u>
Accumulated depreciation	<u>3,230,615</u>	<u>197,941</u>	<u>-</u>	<u>3,428,556</u>
Depreciable assets, net	<u>5,132,703</u>	<u>(197,941)</u>	<u>-</u>	<u>4,934,762</u>
Sewer capital assets, net	<u>5,276,300</u>	<u>(197,941)</u>	<u>-</u>	<u>5,078,359</u>
<i>Water capital assets</i>				
Nondepreciable capital assets				
Land	<u>21,458</u>	<u>-</u>	<u>-</u>	<u>21,458</u>
Depreciable capital assets				
Buildings and improvements	<u>153,884</u>	<u>-</u>	<u>-</u>	<u>153,884</u>
Machinery and other equipment	<u>186,710</u>	<u>-</u>	<u>-</u>	<u>186,710</u>
Distribution system	<u>1,049,586</u>	<u>76,225</u>	<u>-</u>	<u>1,125,811</u>
Total capital assets being depreciated	<u>1,390,180</u>	<u>76,225</u>	<u>-</u>	<u>1,466,405</u>
Accumulated depreciation	<u>727,062</u>	<u>34,214</u>	<u>-</u>	<u>761,276</u>
Depreciable assets, net	<u>663,118</u>	<u>42,011</u>	<u>-</u>	<u>705,129</u>
Water capital assets, net	<u>684,576</u>	<u>42,011</u>	<u>-</u>	<u>726,587</u>
Business-type activities capital assets, net	<u>7,520,678</u>	<u>(314,741)</u>	<u>-</u>	<u>7,205,937</u>
Primary government capital assets, net	<u>\$ 10,838,220</u>	<u>\$ (302,668)</u>	<u>\$ 6,766</u>	<u>\$ 10,528,786</u>

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2006</u>
Component Units:				
Land	\$ 119,091	\$ -	\$ -	\$ 119,091
Capital assets being depreciated:				
Buildings and improvements	428,056	324,815	-	752,871
Machinery and other equipment	45,255	-	-	45,255
Total capital assets being depreciated	473,311	324,815	-	798,126
Accumulated depreciation	12,937	10,233	-	23,170
Net capital assets being depreciated	460,374	314,582	-	774,956
Net component units capital assets	<u>\$ 579,465</u>	<u>\$ 314,582</u>	<u>\$ -</u>	<u>\$ 894,047</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

General government	\$ 14,854
Public safety	59,536
Public works	118,950
Health and welfare	300
Recreation and culture	30,190
Total governmental activities	<u>\$ 223,830</u>

Business-type Activities:

Ambulance	\$ 20,464
Electric	138,347
Sewer	197,941
Water	34,214
Total business-type activities	<u>\$ 390,966</u>

Component Units:

Downtown Development Authority	\$ 4,526
Tax Increment Finance Authority	5,707
Total component units	<u>\$ 10,233</u>

NOTE 6: LONG-TERM DEBT

The City issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

Long-term obligation activity is summarized as follows:

	Interest Rate Ranges	Original Issue Amount	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities:							
2001 Note Payable - Fire Truck							
Maturing through November 2006	5.10%	\$100,000	\$20,000	\$ 20,000	\$ (20,000)	\$ -	\$ -
Compensated absences				187,621	(31,436)	156,185	2,929
Total governmental activities				207,621	(51,436)	156,185	2,929
Business-type Activities							
Revenue bonds - 1991 Sewage							
Disposal System							
Maturing through May 2032	5.75%	950,000	12,000-63,000	884,000	(13,000)	871,000	13,000
Revenue bonds - 1994 Sewage							
Disposal System							
Maturing through May 2032	5.00%	950,000	3,000-10,000	182,000	(3,000)	179,000	3,000
Compensated absences				212,104	(44,833)	167,271	15,114
Total business-type activities				1,278,104	(60,833)	1,217,271	31,114
Total primary government				\$ 1,485,725	\$ (112,269)	\$ 1,373,456	\$ 34,043
Component Units:							
Promissory Note - Building							
Maturing through June 2009	2.86%	324,500	61,245-68,661	263,255	(63,020)	200,235	64,847
Total component units				\$ 263,255	\$ (63,020)	\$ 200,235	\$ 64,847

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

Year Ended June 30,	Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 16,000	\$ 58,659	\$ 74,659	\$ 64,847	\$ 5,804	\$ 70,651
2008	17,000	57,733	74,733	66,727	3,924	70,651
2009	18,000	56,749	74,749	68,661	1,990	70,651
2010	20,000	55,708	75,708	-	-	-
2011	22,000	54,530	76,530	-	-	-
2012-2016	135,000	251,516	386,516	-	-	-
2017-2021	179,000	207,754	386,754	-	-	-
2022-2026	238,000	149,444	387,444	-	-	-
2027-2031	312,000	72,669	384,669	-	-	-
2032	93,000	4,811	97,811	-	-	-
	<u>\$ 1,050,000</u>	<u>\$ 969,573</u>	<u>\$ 2,019,573</u>	<u>\$ 200,235</u>	<u>\$ 11,718</u>	<u>\$ 211,953</u>

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

NOTE 7: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2006 is as follows:

	Due from/Advance to					
	General Fund	Library	Ambulance	Sewer	Electric	Total
Due to:						
General Fund	\$ -	\$ -	\$ 3,485	\$ 5,725	\$ -	\$ 9,210
Nonmajor Governmental Cemetery Perpetual Care	120	-	-	-	-	120
Electric	-	12,000	-	-	-	12,000
	120	12,000	3,485	5,725	-	21,330
Advance from:						
Electric	-	-	-	566,298	30,000	596,298
	<u>\$ 120</u>	<u>\$ 12,000</u>	<u>\$ 3,485</u>	<u>\$ 572,023</u>	<u>\$ 30,000</u>	<u>\$ 617,628</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year; however, the advance receivable and payable between the sewer fund and electric fund is classified as a noncurrent liability in the government-wide and fund financial statements. Balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers reported in the fund statements were as follows:

	Transfer from			
	General Fund	Cemetery Perpetual Care	Electric	Total
Transfer to:				
General Fund	\$ -	\$ 20,000	\$ 531,371	\$ 551,371
Nonmajor Governmental:				
Library	83,318	-	-	83,318
Ambulance	-	-	50,000	50,000
	<u>\$ 83,318</u>	<u>\$ 20,000</u>	<u>\$ 581,371</u>	<u>\$ 684,689</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

NOTE 8: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees.

The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal League risk pool program for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess commercial insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 9: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):

Plan Description – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy – The City is required to contribute at an actuarially determined rate. For the year ended June 30, 2006 the rate was 14.08% for general employees and 15.17% for police/fire employees. The contributions requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Costs – For the fiscal year ended June 30, 2006, the City's annual pension cost of \$217,396 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

Three year trend information as of June 30, 2006 follows:

Fiscal year ended June 30,	2006	2005	2004
Annual pension cost	\$ 217,396	\$ 217,888	\$ 142,407
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Post Employment Benefits:

The City has a policy, in accordance with a union agreement, of paying health insurance for certain retired employees. Health insurance payments for a qualifying retired employee are paid from the time of retirement until the employee reaches the age of 65 or qualifies for Medicare benefits.

During the year ended June 30, 2006 there was one retired employee receiving this benefit. The City's cost of this benefit for the year was \$2,710. The City is using a pay-as-you-go method of funding this benefit program.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

In the 1999 fiscal year, the City adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The City has placed all Deferred Compensation Plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the City's financial statements.

NOTE 10: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for nonexpendable principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for certain trusts.

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

NOTE 11: COMPONENT UNITS REPORTING

A condensed statement of net assets and activities, for the year ended June 30, 2006, for each of the discretely presented component units is shown below.

	<u>Downtown Development Authority</u>	<u>Tax Increment Financing Authority</u>	<u>Economic Development Corporation</u>	<u>Total Component Units</u>
STATEMENT OF NET ASSETS:				
Assets:				
Cash and cash equivalents	\$ 58,246	\$ 518,696	\$ 97,158	\$ 674,100
Receivables	1,960	-	-	1,960
Capital assets, net	56,396	803,430	34,221	894,047
Total assets	116,602	1,322,126	131,379	1,570,107
Liabilities:				
Accounts payable	2,001	1,354	-	3,355
Accrued expenses payable	-	-	52	52
Due to other governmental units	-	160,906	-	160,906
Long-term liabilities:				
Due within one year	-	64,847	-	64,847
Due in more than one year	-	135,388	-	135,388
Total liabilities	2,001	362,495	52	364,548
Net assets:				
Invested in capital assets, net of related debt	56,396	603,195	34,221	693,812
Unrestricted	58,205	356,436	97,106	511,747
Total net assets	\$ 114,601	\$ 959,631	\$ 131,327	\$ 1,205,559
STATEMENT OF ACTIVITIES:				
Expenses	\$ 34,151	\$ 40,689	\$ 7,055	\$ 81,895
Program revenues:				
Charges for services	-	24,600	900	32,850
Total governmental activities	(34,151)	(16,089)	(6,155)	(56,395)
General revenues:				
Property taxes, levied for general purpose	48,205	172,048	-	220,253
Unrestricted investment earnings	295	5,495	890	6,680
Transfers	-	-	-	-
Total general revenues	48,500	177,543	890	226,933
Change in net assets	14,349	161,454	(5,265)	170,538
Net assets, beginning of year	100,252	798,177	136,592	1,035,021
Net assets, end of year	\$ 114,601	\$ 959,631	\$ 131,327	\$ 1,205,559

CITY OF CROSWELL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2006

NOTE 14: PRIOR PERIOD ADJUSTMENTS

Change in reporting of Bike Path Grant:

In the prior year the receivable for the Bike Path grant was incorrectly reported in the Local Street fund instead of the Major Street fund. This change results in an increase in Major Street fund balance and a decrease in the Local Street fund balance of \$29,750 as of June 30, 2005.

Change in reporting of Metro Act funds:

In the prior year the receivable for Metro Act funds was incorrectly reported in the Local Street fund instead of the General fund. This change results in an increase in General Fund fund balance and a decrease in the Local Street fund balance of \$9,737 as of June 30, 2005.

These changes affect the General Fund, Major Street and Local Street funds as follows:

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>
Fund balance, as previously stated, as of 6/30/05	\$ 259,144	\$ 191,898	\$ 224,532
Change in reporting Bike Path grant	-	29,750	(29,750)
Change in reporting Metro Act funds	<u>9,737</u>	<u>-</u>	<u>(9,737)</u>
Fund balance, restated, as of 6/30/05	<u>\$ 268,881</u>	<u>\$ 221,648</u>	<u>\$ 185,045</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF CROSWELL

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended June 30, 2006

Actuarial Valuation Date	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>12/31/2003</u>
Actuarial Value of Assets	\$ 3,989,561	\$ 3,686,737	\$ 3,417,400
Actuarial Accrued Liability (AAL)	6,037,901	5,643,294	4,844,404
Unfunded AAL (UAAL)	2,048,340	1,956,557	1,427,004
Funded Ratio	66%	65%	71%
Covered Payroll	1,662,742	1,498,974	1,416,962
UAAL as a percentage of covered payroll	123%	131%	101%

CITY OF CROSWELL

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under)
				Final Budget
Revenues:				
Property taxes	\$ 608,681	\$ 580,215	\$ 596,380	\$ 16,165
Licenses and permits	15,031	10,968	10,688	(280)
Federal grants	-	20,800	10,800	(10,000)
State grants	315,031	360,819	322,709	(38,110)
Contributions from other units	52,367	56,668	56,665	(3)
Charges from services	171,286	164,409	106,174	(58,235)
Fines and forfeits	1,500	5,646	5,724	78
Interest and rents	6,650	4,845	5,640	795
Other revenue	15,738	47,400	37,512	(9,888)
Total revenues	1,186,284	1,251,770	1,152,292	(99,478)
Expenditures:				
General government	488,840	841,592	487,264	(354,328)
Public safety	574,527	581,242	560,343	(20,899)
Public works	432,520	366,051	352,329	(13,722)
Health and welfare	17,269	31,069	15,534	(15,535)
Recreation and culture	48,275	35,572	24,123	(11,449)
Capital outlay	13,500	209,470	209,080	(390)
Debt service:				
Principal	20,000	20,000	20,000	-
Interest and charges	2,100	1,000	916	(84)
Total expenditures	1,597,031	2,085,996	1,669,589	(416,407)
Excess (deficiency) of revenues over expenditures	(410,478)	(834,226)	(517,297)	316,929
Other financing sources (uses):				
Transfers in	495,366	495,366	551,371	56,005
Transfers out	(83,318)	(83,318)	(83,318)	-
Total other financing sources (uses)	412,048	412,048	468,053	56,005
Net change in fund balance	1,570	(422,178)	(49,244)	372,934
Fund balance, beginning of year, as restated	268,881	268,881	268,881	-
Fund balance, end of year	\$ 270,451	\$ (153,297)	\$ 219,637	\$ 372,934

OTHER SUPPLEMENTAL INFORMATION

CITY OF CROSWELL

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2006

Revenues:

Current taxes:

Property taxes	\$ 479,002
Trailer tax	264
Interest on taxes	7,356
Administration fees	19,560
Payment in lieu of taxes	90,198
	<u>596,380</u>

Licenses and permits:

Nonbusiness licenses and permits	5,055
CATV franchise fees	5,633
	<u>10,688</u>

Federal Grants:

Homeland security - fire department	10,800
	<u>10,800</u>

State grants:

Liquor license fees	1,657
State revenue sharing - sales tax	305,876
Metro Act funds	8,970
State grant - election equipment	4,800
State grant - police training	1,406
	<u>322,709</u>

Contribution from other units:

Fire protection fees	14,675
Croswell-Lexington schools - cops in school	40,085
Croswell-Lexington schools - crossing guards	1,905
	<u>56,665</u>

Charges for services:

Refuse collection fees	75,794
Cemetery fees	19,185
Police services and reports	448
Fire runs	10,747
	<u>106,174</u>

Fines and forfeitures:

Other	5,724
	<u>5,724</u>

Interest and rents:

Interest	1,957
Rents	3,683
	<u>5,640</u>

Other revenue:

Sale of fixed assets	1,450
Cemetery lots/perpetual care	18,760
Contributions and donations	12,700
Other	4,602
	<u>37,512</u>

Total revenues	<u><u>\$ 1,152,292</u></u>
----------------	----------------------------

CITY OF CROSWELL

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2006

General Government:

Council:

Personnel	\$ 5,165
Fringe benefits	447
Supplies	153
Contracted services	1,064
Dues and memberships	4,698
Printing and publications	5,842
Insurance	20,359
Other	6,706
	<u>44,434</u>

Manager:

Personnel	79,011
Fringe benefits	16,257
Supplies	157
Contracted services	47
Telephone	1,008
Mileage	2,627
Education and training	495
Insurance	625
Equipment rental	595
	<u>100,822</u>

Clerk:

Personnel	50,489
Fringe benefits	27,945
Supplies	951
Contracted services	648
Telephone	387
Mileage	382
Dues and memberships	185
Education and training	300
Printing and publications	85
Insurance	575
Equipment rental	595
	<u>82,542</u>

Board of Review:

Personnel	322
Fringe benefits	25
Printing and publications	314
	<u>661</u>

CITY OF CROSWELL

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2006

General Government (continued):

Treasurer:

Personnel	\$ 53,645
Fringe benefits	19,635
Supplies	1,993
Contracted services	486
Telephone	312
Travel/Mileage	94
Dues and memberships	45
Printing and publications	71
Insurance	800
Equipment rental	850
	<hr/>
	77,931

Assessor:

Supplies	879
Contracted services	14,681
Mileage	200
Repairs and maintenance	1,340
Equipment rental	360
	<hr/>
	17,460

Elections:

Personnel	904
Supplies	1,343
Contracted services	251
Mileage	37
Printing and publications	680
Equipment rental	150
Other	11
	<hr/>
	3,376

Buildings and Grounds:

Personnel	2,344
Fringe benefits	216
Supplies	4,055
Contracted services	2,089
Telephone	565
Printing and publications	21
Insurance	492
Utilities	2,859
Repairs and maintenance	4,406
Other	113
	<hr/>
	17,160

CITY OF CROSWELL

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2006

General Government (continued):

Cemetery:

Personnel	78,311
Fringe benefits	40,771
Supplies	2,249
Contracted services	1,308
Telephone	229
Education and training	70
Printing and publications	97
Insurance	552
Utilities	4,018
Repairs and maintenance	1,044
Equipment rental	5,804
Other	650
	<u>135,103</u>

Community Center:

Personnel	1,096
Fringe benefits	125
Supplies	344
Contracted services	106
Insurance	409
Utilities	4,838
Repairs and maintenance	857
	<u>7,775</u>

Total general government	<u>487,264</u>
--------------------------	----------------

Public Safety:

Police:

Personnel	342,818
Fringe benefits	87,005
Supplies	11,505
Contracted services	3,230
Telephone	6,369
Mileage	1,197
Dues & memberships	100
Education & training	1,379
Printing & publications	1,390
Insurance	13,283
Utilities	3,015
Repairs & maintenance	5,707
Equipment rental	505
Other	1,201
	<u>478,704</u>

CITY OF CROSWELL

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2006

General Government (continued):

Public Safety, (continued):

Fire:

Personnel	16,920
Fringe benefits	12,418
Supplies	6,491
Telephone	1,041
Dues & memberships	655
Education & training	1,735
Printing & publications	185
Insurance	8,856
Utilities	11,195
Repairs & maintenance	4,827
Equipment rental	105
	<hr/>
	64,428

Protective Inspection & Regulation:

Personnel	4,486
Fringe benefits	912
Supplies	274
Contracted services	5,825
Mileage	3
Education & training	741
Printing & publications	325
Equipment rental	355
Other	30
	<hr/>
	12,951

Other Public Safety:

Personnel	2,133
Fringe benefits	342
Supplies	866
Dues & memberships	256
Education & training	511
Equipment rental	152
	<hr/>
	4,260

Total public safety	<hr/>	560,343
---------------------	-------	---------

CITY OF CROSWELL

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2006

General Government (continued):

Public Works:

Department of Public Works:

Personnel	84,737
Fringe benefits	46,271
Supplies	1,250
Telephone	1,272
Education and training	360
Printing and publications	289
Insurance	1,493
Utilities	12,926
Repairs and maintenance	1,106
Equipment rental	2,308
	<hr/>
	152,012

Sidewalks:

Personnel	2,920
Supplies	8,148
Contracted services	4,501
Equipment rental	1,326
	<hr/>
	16,895

Drains - Public Benefit, at Large:

Personnel	3,453
Supplies	5
Equipment rental	348
	<hr/>
	3,806

Street Lighting:

Personnel	7,607
Supplies	7,222
Utilities	45,526
Equipment rental	449
	<hr/>
	60,804

Sanitation:

Personnel	28,832
Fringe benefits	1,400
Supplies	1,036
Printing and publications	75,392
Equipment rental	12,152
	<hr/>
	118,812

Total public works	<hr/>
	352,329

CITY OF CROSWELL

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2006

General Government (continued):

Health and Welfare:

Ambulance:

Contracted services	15,534
Total health and welfare	<u>15,534</u>

Recreation and Culture:

Recreation/Parks:

Personnel	11,277
Fringe benefits	2,330
Supplies	2,135
Contracted services	1,683
Printing and publications	39
Insurance	633
Utilities	1,828
Equipment rental	3,447
Other	610
	<u>23,982</u>

Historical Museum

Personnel	67
Insurance	74
	<u>141</u>

Total recreation and culture	<u>24,123</u>
------------------------------	---------------

Capital Outlay:

General government	166,932
Public safety	42,148
	<u>209,080</u>

Debt Service:

Principal	20,000
Interest and fees	916
Total debt service	<u>20,916</u>

Total expenditures	<u>\$ 1,669,589</u>
--------------------	---------------------

CITY OF CROSWELL

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue Funds			Permanent Funds			Total Nonmajor Governmental Funds
	Major Street Fund	Local Street Fund	Library Fund	Gingersnap Trust	Cemetery Perpetual Care	Library Trust	
Assets:							
Cash and cash equivalents	\$ 251,319	\$ 275,286	\$ 70,395	\$ -	\$ 212,473	\$ 26,261	\$ 835,734
Investments	-	-	-	12,791	-	412,473	425,264
Due from other							
governmental units	24,350	8,142	27,046	-	-	-	59,538
Due from component unit	-	665	-	-	-	-	665
Due from other funds	-	-	-	-	120	-	120
Prepaid expenditures	2,914	2,914	1,843	-	-	-	7,671
Total assets	<u>\$ 278,583</u>	<u>\$ 287,007</u>	<u>\$ 99,284</u>	<u>\$ 12,791</u>	<u>\$ 212,593</u>	<u>\$ 438,734</u>	<u>\$ 1,328,992</u>
Liabilities and Fund Balances:							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ 1,523	\$ -	\$ -	\$ -	\$ 1,523
Accrued expenses	901	763	1,389	-	-	-	3,053
Due to other funds	-	-	12,000	-	-	-	12,000
Total liabilities	901	763	14,912	-	-	-	16,576
Fund balances:							
Reserved for:							
Prepaid expenditures	2,914	2,914	1,843	-	-	-	7,671
Nonexpendable principal	-	-	-	12,791	212,593	438,734	664,118
Unreserved:							
Special revenue funds	274,768	283,330	82,529	-	-	-	640,627
Total fund balances	277,682	286,244	84,372	12,791	212,593	438,734	1,312,416
Total liabilities and fund balances	<u>\$ 278,583</u>	<u>\$ 287,007</u>	<u>\$ 99,284</u>	<u>\$ 12,791</u>	<u>\$ 212,593</u>	<u>\$ 438,734</u>	<u>\$ 1,328,992</u>

CITY OF CROSWELL

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Special Revenue Funds			Permanent Funds			Total Nonmajor Governmental Funds
	Major Street Fund	Local Street Fund	Library Fund	Gingersnap Trust	Cemetery Perpetual Care	Library Trust	
Revenues:							
Property taxes	\$ -	\$ 57,469	\$ -	\$ -	\$ -	\$ -	\$ 57,469
State grants	147,473	49,312	4,354	-	-	-	201,139
Contributions from other units	2,750	67,184	53,171	-	-	-	123,105
Charges for services	-	-	2,462	-	-	-	2,462
Fines and forfeits	-	-	2,019	-	-	-	2,019
Interest and rents	2,015	1,768	466	(54)	20,162	8,073	32,430
Other revenue	-	-	1,770	-	12,240	-	14,010
Total revenues	152,238	175,733	64,242	(54)	32,402	8,073	432,634
Expenditures:							
<i>Current:</i>							
Public works	96,204	74,534	-	-	-	-	170,738
Recreation and culture	-	-	167,515	-	-	9,707	177,222
Total expenditures	96,204	74,534	167,515	-	-	9,707	347,960
Excess (deficiency) of revenues over expenditures	56,034	101,199	(103,273)	(54)	32,402	(1,634)	84,674
Other financing sources (uses):							
Transfers in	-	-	83,318	-	-	-	83,318
Transfers out	-	-	-	-	(20,000)	-	(20,000)
Total other financing sources (uses)	-	-	83,318	-	(20,000)	-	63,318
Net change in fund balance	56,034	101,199	(19,955)	(54)	12,402	(1,634)	147,992
Fund balance, beginning of year, as restated	221,648	185,045	104,327	12,845	200,191	440,368	1,164,424
Fund balance, end of year	\$ 277,682	\$ 286,244	\$ 84,372	\$ 12,791	\$ 212,593	\$ 438,734	\$ 1,312,416

CITY OF CROSWELL

FIDUCIARY FUNDS – AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended June 30, 2006

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
<u>Current Tax Collection Fund</u>				
Assets:				
Cash and cash equivalents	\$ 1,079	\$ 1,828,346	\$ 1,826,053	\$ 3,372
Liabilities:				
Due to other funds and component units	\$ 1,079	\$ 938,656	\$ 936,363	\$ 3,372
Due to other governmental units	-	889,690	889,690	-
Total liabilities	\$ 1,079	\$ 1,828,346	\$ 1,826,053	\$ 3,372

CITY OF CROSWELL

ENTERPRISE FUNDS

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2006

1991 SEWAGE DISPOSAL SYSTEM REVENUE BONDS:

Date of Issue - January 23, 1992

Amount of Issue - \$950,000

Interest Rate - 5.75%

Fiscal Year Ended June 30,	Interest November 1	Interest May 1	Principal May 1	Total Requirements
2007	\$ 25,041	\$ 24,668	\$ 13,000	\$ 62,709
2008	24,668	24,265	14,000	62,933
2009	24,265	23,834	15,000	63,099
2010	23,834	23,374	16,000	63,208
2011	23,374	22,856	18,000	64,230
2012	22,856	22,281	20,000	65,137
2013	22,281	21,678	21,000	64,959
2014	21,678	21,016	23,000	65,694
2015	21,016	20,326	24,000	65,342
2016	20,326	19,608	25,000	64,934
2017	19,608	18,831	27,000	65,439
2018	18,831	18,026	28,000	64,857
2019	18,026	17,164	30,000	65,190
2020	17,164	16,244	32,000	65,408
2021	16,244	15,266	34,000	65,510
2022	15,266	14,231	36,000	65,497
2023	14,231	13,139	38,000	65,370
2024	13,139	11,989	40,000	65,128
2025	11,989	10,781	42,000	64,770
2026	10,781	9,488	45,000	65,269
2027	9,488	8,108	48,000	65,596
2028	8,108	6,670	50,000	64,778
2029	6,670	5,146	53,000	64,816
2030	5,146	3,536	56,000	64,682
2031	3,536	1,811	60,000	65,347
2032	1,811	-	63,000	64,811
	<u>\$ 419,377</u>	<u>\$ 394,336</u>	<u>\$ 871,000</u>	<u>\$ 1,684,713</u>

CITY OF CROSWELL

ENTERPRISE FUNDS

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2006

1994 SEWAGE DISPOSAL SYSTEM REVENUE BONDS:

Date of Issue - May 13, 1994

Amount of Issue - \$200,000

Interest Rate - 5.00%

Fiscal Year Ended June 30,	Interest November 1	Interest May 1	Principal May 1	Total Requirements
2007	\$ 4,475	\$ 4,475	\$ 3,000	\$ 11,950
2008	4,400	4,400	3,000	11,800
2009	4,325	4,325	3,000	11,650
2010	4,250	4,250	4,000	12,500
2011	4,150	4,150	4,000	12,300
2012	4,050	4,050	4,000	12,100
2013	3,950	3,950	4,000	11,900
2014	3,850	3,850	4,000	11,700
2015	3,750	3,750	5,000	12,500
2016	3,625	3,625	5,000	12,250
2017	3,500	3,500	5,000	12,000
2018	3,375	3,375	5,000	11,750
2019	3,250	3,250	6,000	12,500
2020	3,100	3,100	6,000	12,200
2021	2,950	2,950	6,000	11,900
2022	2,800	2,800	7,000	12,600
2023	2,625	2,625	7,000	12,250
2024	2,450	2,450	7,000	11,900
2025	2,275	2,275	8,000	12,550
2026	2,075	2,075	8,000	12,150
2027	1,875	1,875	8,000	11,750
2028	1,675	1,675	9,000	12,350
2029	1,450	1,450	9,000	11,900
2030	1,225	1,225	9,000	11,450
2031	1,000	1,000	10,000	12,000
2032	750	750	10,000	11,500
2033	500	500	10,000	11,000
2034	250	250	10,000	10,500
	<u>\$ 77,950</u>	<u>\$ 77,950</u>	<u>\$ 179,000</u>	<u>\$ 334,900</u>

CITY OF CROSWELL

COMPONENT UNIT

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2006

PROMISSORY NOTE – BUILDING

Date of Issue – June 3, 2004

Amount of Note - \$324,500

Interest Rate - 2.86%

Fiscal Year Ended June 30,	Interest June 3	Principal June 3	Total Requirements
2007	\$ 5,804	\$ 64,847	\$ 70,651
2008	3,924	66,727	70,651
2009	1,990	68,661	70,651
	<u>\$ 11,718</u>	<u>\$ 200,235</u>	<u>\$ 211,953</u>

**BERTHIAUME
& COMPANY**

Certified Public Accountants



60 Harrow Lane
Saginaw, Michigan 48638

(989) 791-1555
Fax (989) 791-1992

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Croswell, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Croswell, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City of Croswell, Michigan's basic financial statements and have issued our report thereon dated October 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Croswell, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Croswell, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

October 5, 2006



October 5, 2006

To The City Council
City of Croswell, Michigan

We have audited the financial statements of the City of Croswell for the year ended June 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the City of Croswell in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Croswell are described in Note 1 to the financial statements. We noted no transactions entered into by the City of Croswell during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the City's financial statements and this communication of these matters does not affect our report on the financial statements, dated October 5, 2006.

Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants